Address to the Board of Governors by Barber B. Conable

President
The World Bank
International Finance Corporation
and
Multilateral Investment Guarantee Agency

Berlin (West), September 27, 1988

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The World Bank
Washington, D.C., U.S.A.

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I am pleased to be here in the heart of Europe. I wish to thank Chancellor Kohl, the government of the Federal Republic of Germany, Mayor Diepgen, and the authorities and the people of West Berlin for their hospitality.

This great continent stands at the threshold of new economic prosperity as the largest integrated market in the world. Europe's postwar transformation shows how hope, combined with enlightened international cooperative action, can yield great progress. We must apply the same spirit in our effort to provide rising prosperity and renewed hope for the poor people of the world.

Such hope, reinforced by international cooperation and assistance, can yield miracles. I have seen the difference that a village well or a rural health clinic can make. I have seen the grateful eyes of women having access to fresh, clean water for the first time since becoming mothers. From small investments—a metal plow, a sack of seed, a biology textbook, a line of credit for a trucking firm, a bulldozer to make a dirt road passable in bad weather—new worlds of opportunity can emerge.

As Francis Bacon so aptly stated, "in this theatre of man's life it is reserved only for God and angels to be lookers on." We at the World Bank are determined not to be onlookers. We will continue to put all our energies into fighting poverty through sustainable, equitable growth.

Resources for Action

Before talking about what we must do, however, I want to outline some of the highlights of the past year. At our last Annual Meetings, I called for increased support for our urgent development efforts. In response to that appeal,

- Shareholders approved the General Capital Increase, which will allow us to increase Bank lending by 10 percent a year through the early 1990s.
- The international community demonstrated its strong commitment to the poorest countries by agreeing to the eighth and largest replenishment of the International Development Association (IDA).

- Donors boosted their cofinancing support for IDA's adjustment operations in Sub-Saharan Africa and made some progress in reducing Africa's official debt.
- The Multilateral Investment Guarantee Agency (MIGA) became an operational reality.

I am most grateful for this support. This added strength, combined with the continued confidence of the financial markets, will allow us to act resolutely and effectively. I am counting also on continued close cooperation with our sister organization, the International Monetary Fund.

The Bank will put these additional resources to work to foster growth and an equitable distribution of the fruits of that growth. We will encourage the process of economic policy reform, while helping to protect the poor from added hardships. The Bank will focus fresh efforts in the fields of hunger, population, education, and environmental protection. In the crucial area of finance, we will mobilize greater resources to ease debt burdens and ensure that growth expands and poverty recedes.

A Central Goal: Reducing Poverty

Let me focus now on the central goal of the Bank: the reduction of poverty. Poverty on today's scale prevents a billion people from having even minimally acceptable standards of living. To allow every fifth human being on our planet to suffer such an existence is a moral outrage. It is more: it is bad economics, a terrible waste of precious development resources. Poverty destroys lives, human dignity, and economic potential. It must be fought with resolution and overcome with sustainable growth.

The World Bank is dedicated to attacking poverty and beating it back. Our experience makes us confident. It also teaches us that simplistic solutions will not work. Instead, we need determined and sustained action on five fronts:

- Securing economic growth
- Combating hunger
- Curbing excessive population growth

- Investing in education
- Protecting the interests of the poor during the process of economic adjustment.

First and foremost, we must have growth. Growth provides the poor with access to better markets and opportunities. It provides the resources for public and private programs vital to the poor. It helps sustain the broad-based political support the antipoverty effort needs. Sensible macroeconomic policies are essential for that growth and for a successful attack on poverty. The Bank supports such policies through lending for adjustment, which now accounts for a quarter of our new commitments.

Second, the impact of economic growth must be strengthened by direct action to combat hunger. Hunger takes many forms and has many specific causes. We all are aware of the natural disasters in Bangladesh, the social deprivation in Brazilian favelas, and the economic backwardness in northeastern Thailand, to mention a few examples. Remedial measures must address these differences realistically.

In Sub-Saharan Africa, more than 100 million people—one person in four—do not get enough to eat. Dramatic food emergencies are an all-too-frequent reminder of the tragedy of poverty. To fight hunger, African countries need economic growth, especially in agriculture. I attach the highest importance to the Bank's efforts to expand agricultural research. We will continue to support national programs which bring the needed technology and services to small farmers. By the end of this year, such programs will be under way with Bank support in thirty-one African countries.

The Bank will work persistently with African governments, official and nongovernmental donors, and other international institutions to make food security a reality. This will require more external resources, improved capacity to deal with droughts and other food emergencies, better policies to stabilize food prices, and stronger institutions. Within five years, I am confident that our collective action can put in place food security programs across the continent.

The numbers of absolute poor are even larger in other parts of

the world. Similar approaches of collaborative problem-solving and action are essential.

Third, it is imperative that developing countries renew and expand efforts to limit population growth. Some countries have made great progress in this area. Even so, many nations will double their already large populations early in the next century.

Please allow me to speak plainly. I realize that population policy touches upon sensitive cultural and religious values. But the societies in which population is growing very fast must accept that many—perhaps most—of these new lives will be miserable, malnourished, and brief. With today's population growth rates, badly needed improvements in living standards cannot be achieved, public resources for necessary services are overstretched, and the environment is severely damaged. By contrast, effective family planning programs in countries as different as Mexico and Indonesia show large savings over time in public health and education expenditures—to say nothing of the benefits to the families.

Given the magnitude and severity of the problem, it is alarming that many governments are failing to implement sensible population policies. It is also distressing that international assistance for population activities has declined. These trends must be reversed.

A vital part of the Bank's work involves development activities that have a strong impact on population. Many projects improve economic opportunity and education for poor people, particularly women and girls. We are financing health and safe motherhood programs, and we will expand our direct support for family-related activities. Population issues will be prominent in our dialogue with governments.

Fourth among the Bank's antipoverty priorities is the need to focus on a vital resource for growth, the limitless capacity of the human mind. The productivity of an educated work force is the most reliable engine of economic growth. Knowing this, the Bank and its members cannot ignore the disturbing evidence that investment in education has declined as the need for it has risen. The gap in per-pupil spending between low-income and industrial countries is now almost four times what it was a generation

ago. Enrollment is lagging as well. At the primary level alone, 100 million youngsters who should have been attending schools in 1985 were not. Can we afford to cut off so many young people from active, productive futures?

Modest investments in education, wisely and steadily made, pay great dividends in fostering growth and reducing poverty. "There is no force," José Martí wrote a century ago, "that will not eventually succumb to trained human intelligence." I will give education heightened priority. Countries which undertake to reform and upgrade their education systems will find the Bank a supportive partner.

Fifth, governments and donors need to do more to protect the poor during the adjustment process. Policy reform is in the best long-term interests of the poor. Distortions and misconceived economic policies harm them more than others. Poor people can get hurt, however, in the transitional process of correcting past mistakes. We have a special duty to encourage and finance measures which keep their short-term interests in mind.

Although growth is essential, growth alone cannot overcome these hardships. Deliberate measures must be taken to deal with the social consequences of adjustment. The possible adverse impact on poor people's income and consumption must be avoided. This is the focus of the Social Dimensions of Adjustment Program, a Bank-managed multi-agency effort now under way in a score of African countries. Social programs for the poor must be protected. Initiatives such as Bolivia's Emergency Social Program and Ghana's Program of Action to Mitigate the Social Costs of Adjustment are Bank-financed examples of how this can be done.

These five priorities—securing economic growth, combating hunger, curbing excessive population growth, investing in education, and protecting the poor during adjustment—will guide the World Bank's renewed effort to reduce poverty. But let me stress—effective implementation, not noble intention, is the crucial test. Effective implementation demands that poverty measures focus directly on those in need and that available resources be used more efficiently. Hence, Bank lending in the social sectors will support better design, targeting, and delivery of services for the poor.

Poverty is not an economic abstract, nor is it homogeneous. In different ways it afflicts males and females, the young and the old, families and people alone, rural and urban dwellers. It must be dealt with through realistic programs which acknowledge the diversity of human conditions.

Government policies and public programs play a critical role in poverty alleviation. But governments cannot do everything. Non-governmental organizations (NGOs) in many developing countries have enormous potential for flexible and effective action. I have encouraged Bank staff to initiate a broadened dialogue with NGOs. Some 150 Bank projects have been identified in which NGOs can play a cooperative role. I hope, and fully expect, that this collaboration will continue and flourish.

The objectives which I have outlined today are ambitious. They depend on the commitment of governments to initiate and sustain change in difficult times. The Bank is prepared to assist member countries that are willing to make a commitment to growth with equity. We have the ideas, the resources, and a dedicated staff of men and women who are committed to development.

Action for the Environment

Let me turn now to another matter which is inextricably linked to poverty alleviation—safeguarding the physical environment. The poor are the least able to escape the consequences of environmental damage caused by others. They are likely to be prime victims when loggers clear tropical forests recklessly or when toxic waste is shipped unregulated to poor countries and dumped without regard to risk. This is a growing practice which the international community must not tolerate.

We have a collective responsibility to break this vicious cycle of poverty and environmental degradation. We must do so in ways which provide growth, higher productivity, and secure incomes for poor people. I am determined that the Bank take a leading role in this common effort.

The Bank's expanded environment staff is active in programs to preserve biological diversity, in projects to control air and water pollution, in urban upgrading and the improvement of water

supply and sanitation, and in helping countries develop the capacity to manage industrial hazards. Some $200 million of Bank and IDA resources are being invested in projects in about thirty countries to combat desertification and conserve the potential of arid lands. We also are strengthening our own internal review and awareness of the environmental consequences of all projects we finance.

Last year I told you the Bank would expand support for forest management. Our forestry lending last fiscal year reached $193 million and included an innovative forest rehabilitation project in China. In Brazil, Indonesia, Madagascar, and the Philippines, we are collaborating with governments on national environmental programs with major forest conservation components.

An Agenda for Growth

We have come a long way in a short time. Both we and our member governments need to do far more. There is an equally urgent need for the world community to contain the global environmental threats to our common future.

I have repeatedly stressed the importance of growth. Developing countries can make significant progress in reducing poverty and in safeguarding the environment only if they are undergoing healthy expansion. The Bank is, above all, an international partnership for growth. To facilitate growth, however, progress is needed in four areas:

- First, better international economic policies and more open trade
- Second, deeper and more persevering structural reforms by developing countries
- Third, stronger, more sustained international financing to support economic reform and development efforts
- Fourth, the creation of an economic environment for vigorous private sector growth in developing countries.

Let me address these four central issues, each one vital to long-term progress.

An Improved World Environment

For healthy growth to occur, there must be an expanding global economy. The world economy has, in fact, fared better than many had thought possible following last year's fall in the stock market. The outlook remains clouded, however, by inflationary trends, continued uncertainties over financial imbalances and exchange rates, and increasing protectionism in the industrialized world.

Coordinated, growth-oriented, and outward-looking policies in the developed world are essential. The cooperative gains of recent summit agreements must continue. Negotiators and principals must act with courage in the Uruguay Round discussions, in preparations for the Lomé IV agreements, and in the run-up to 1992 in Europe. The success of the Uruguay Round, especially the reform of agricultural trade, is critical for developing countries. In short, industrial countries must not shirk their special responsibilities for the health and stability of a growing international economy.

Need for Deeper Adjustment

To take advantage of the opportunities for growth, developing countries must undertake, and persist with, deeper adjustment than most have so far managed. Our research shows that countries which have undertaken deeper structural reforms have had better growth and stronger balance of payments performance than those whose reforms were patchy or short-lived.

Successful adjustment takes long and sustained effort. For this reason,

- We will increasingly base our lending on the implementation of multiyear adjustment programs.
- Our borrowers will need to pay more attention to the fiscal dimension of adjustment, the management and financing of the public sector.
- We will place stronger emphasis on institutional reform.

External Finance for Growth

Growth cannot be sustained unless it is adequately financed, and external finance is critical to continuity. Current flows of resources are inadequate to meet developing countries' minimum needs.

The Bank is committed to carrying its share of the burden. In fiscal 1988 new Bank Group commitments to our borrowers topped $20 billion for the first time. Our gross disbursements also reached an all-time record of more than $15 billion, and the Bank Group's net disbursements to its current borrowers totaled $7.6 billion.

The progress made to reduce the burden of debt service in low-income countries has been encouraging. The Bank's Special Program of Assistance for Sub-Saharan Africa and the Enhanced Structural Adjustment Facility of the Fund are in place. The Toronto Summit offered a broad menu of debt relief options to low-income debtors. The Paris Club is now working out the technicalities. Speedy action is important.

I am pleased to report that our Board has approved the immediate use of IDA reflows to increase IDA's commitment authority by an additional 525 million SDR annually starting this fiscal year. A portion of the IDA reflows and IDA's net income will be used to supplement adjustment operations in IDA-only countries, taking into account their debt service obligations to the International Bank for Reconstruction and Development (IBRD).

But we cannot overlook the fact that heavily indebted middle-income countries continue to experience persistent stagnation and low growth. The Bank's approach has been to support investments and new money flows. If this is not sufficient to restore and sustain growth, we must explore further collaborative solutions. I believe a pragmatic, evolutionary approach to the debt crises in the heavily indebted middle-income countries should:

- Preserve the case-by-case approach
- Strengthen investment and stimulate growth in the indebted countries

- Provide financial support by catalyzing new money and facilitating voluntary debt reductions
- Be linked to good performance under an adjustment program.

Critical Role for the Private Sector

Open trade, economic reform, and adequate finance can provide essential opportunities for growth. But we also must make use of the full potential of the private sector. We must create conditions in which entrepreneurs, farmers, and workers can save, invest, and produce efficiently. This is a pragmatic imperative, not an ideological abstraction.

For years, the Bank has provided substantial support to the private sector. The Bank has lent billions for agriculture, industry, and infrastructure. This support will continue. But we will do more:

- Our adjustment lending and other operations must encourage greater private initiative and help dismantle monopolies and special privileges for any group—private or public.
- We will stress the urgently needed reforms of domestic financial systems, markets, and instruments to mobilize domestic savings and venture capital.
- We will provide advice, technical services, and finance to assist in the reform or privatization of state enterprises.
- Through the International Finance Corporation (IFC), we will extend stronger support for the development of capital markets.
- MIGA will offer advice and guarantees to promote private ventures and development.

I am committed to using our institutional strength to leverage our own resources with commitments from the international and domestic private sector. I am making available the financial and intellectual power of the Bank, the corporate agility of the IFC, and soon the risk coverage of our new affiliate, MIGA.

Private sector involvement is not a panacea. But private entrepreneurs command much-needed resources and have access to

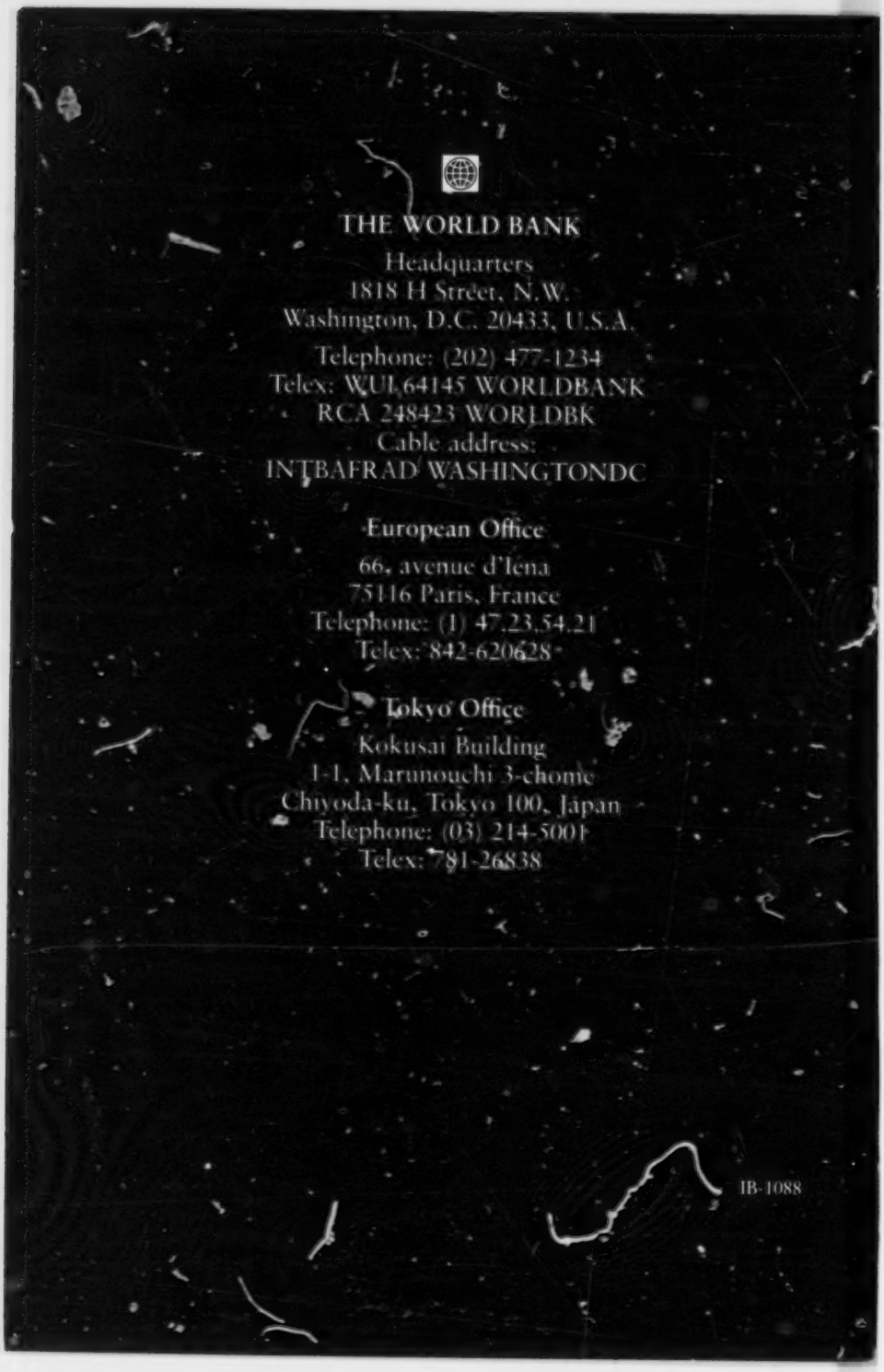
new technologies, management skills, and markets. No economy should waste such a potential.

Conclusion

In closing, I want to reiterate that we must work together. The stubborn fact of the 1980s is that growth has been inadequate, poverty is still on the rise, and the environment is poorly protected. Unchanged, these realities would deny our children a peaceful, decent, and livable world.

We cannot afford to give up. We must build, instead, on what has been achieved and what has been learned over four decades of development experience. We will not succeed immediately, and we will not succeed everywhere. But we are entering a period of greater opportunities for partnership and cooperation.

Let us seize these opportunities pragmatically and urgently. Let us, together, rededicate our energies, our will, our strength to the challenge of growth, the promise of equity, the work of development. With your continued support, we are determined to carry our mission forward with vision, competence, compassion, and courage.



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